Commonwealth of Massachusetts
Group Insurance Commission

Successfully Navigating Rough Fiscal and Health Care Seas

Commonwealth of Massachusetts
Group Insurance Commission

Your Benefits Connection

Fiscal Year 2010 Annual Report

THE GROUP INSURANCE COMMISSION

The mission of the Group Insurance Commission is to provide high value health insurance and other benefits to state employees, retirees, and their survivors and dependents as well as to housing and certain other authorities. The GIC also provides health-only benefits to participating municipalities' employees, retirees, and their survivors and dependents. The agency works with vendors selected through competitive bidding to offer cost-effective services through careful plan design and rigorous ongoing management. The agency's performance goals are to provide affordable, high quality benefits, and as the largest employer purchaser of health insurance in the Commonwealth, to use that position to help drive improvements in the health care delivery system.

The GIC offers the following benefit programs:

- A diverse array of health insurance options
- Term life insurance
- Long Term Disability (LTD) insurance
- Dental/Vision coverage for managers, legislators, legislative staff and certain Executive Branch employees
- Dental coverage for retirees
- Discount vision program for retirees
- Health Care Spending Account (HCSA)
- Dependent Care Assistance Program (DCAP)

COMMONWEALTH OF MASSACHUSETTS
GROUP INSURANCE COMMISSION
Fiscal Year 2010 Annual Report
Editor: Cynthia E. McGrath
Printed January 2011

Dear Friends:

Although I'm not much of a sailor, I know a humdinger of a storm when one hits. Fiscal Year 2010 was at least a category 3. The state was grappling with a fiscal crisis while health care costs continued to explode at unsustainable rates. The Group Insurance Commission, in its sixth year of the Clinical Performance Improvement (CPI) Initiative, continued to shine a beacon on some of the reasons for escalating costs, particularly over-utilization of resources and procedures, sometimes to the detriment of patient health. At the same time, provider costs were also rising. With the GIC's innovative CPI Initiative, members have an incentive through lower copays to see physicians and hospitals that offer quality, cost-efficient care.

Despite these efforts, we were forced to reef the sails and it was all hands on deck. Anticipating a rough year, the Commission took a fiscally prudent course and made benefit changes for FY10. In addition, the final FY10 appropriation made changes to the premium contributions current state employees and future state retirees paid. Despite these measures, claims costs soared above projection and the Commission took a hard tack – trimming benefits mid-year for only the second time in 23 years.

Meanwhile, municipalities' health care costs were submerging their budgets and many decided to come on board and joined the GIC for FY10 and FY11. The consolidation of state transportation agencies and sheriffs departments in seven counties added more members to the GIC mid year. Without any additional staff, we ensured a smooth transition for over 20,000 of these new subscribers.

There are unchartered waters ahead, but the GIC is positioned for the challenge. We hope that as you read this annual report, you will agree that not only have we navigated successfully, but we are also among those leading the way forward to improve health care quality and costs for all Massachusetts residents.

Very truly yours,

Dolores L. Mitchell
Executive Director

THE PERFECT STORM

Rising Health Care Costs

Since 2005, health insurance premiums nationally have gone up 27 percent, more than twice the rate of inflation. Similarly, the GIC's health care costs continued to rise. Factors for rising costs included:

- New technology
- Aging population
- No end in sight for rising provider costs – particularly more expensive teaching hospitals, which cost two and one-half times the national average
- Overuse of some services, such as radiology and heavily advertised brand drugs
- Addition of municipalities equals more enrollees
- Expanding waistlines and other unhealthy lifestyle risk factors

Many employers have reduced coverage, eliminating retiree coverage altogether, eliminating choice of plans and/or providers, implementing high-deductible plans of $1,000-$5,000 before most benefits begin, and instituting co-insurance, where the member pays a percentage of the cost of services.

The GIC has taken a different approach:

- Sharing responsibility for reducing costs and improving quality – providers, members, health plans, and the GIC
- Maintaining comprehensive benefits and choice
- Emphasizing health care quality and safety
- Educating members about provider performance
- Encouraging healthy behavior
- Maintaining retiree benefits

State's Fiscal Crisis

The national recession continued to take a toll on Massachusetts' budget. Unemployment and health care costs rose while tax collections, business investment and housing starts fell. Facing a projected structural deficit of approximately $2 billion for FY10, the Administration and the Legislature implemented spending cuts, layoffs and fee increases. Part of the solution for closing the state's budget gap was to change the basic life and health premium contributions paid by state employees and future state retirees.

BATTENING DOWN THE HATCHES

A 2008 survey of national employer-sponsored health plans by Mercer Health and Benefits L.L.C. projected that employers would, on average, have premium increases of 6.4% for 2009 after plan design changes, including more employers implementing high deductible plans. Without the plan design changes, the projected increase would have been at least 8%. The GIC was able to negotiate a weighted premium increase of 3.19% for FY10 after increasing copays for employees and Non-Medicare retirees: prescription drugs, specialist office visits, introduction of high tech imaging copays, and increased surgery and inpatient hospital copays for some plans and/or hospitals. In other words, the GIC increase was approximately 3% lower than the private sector increases for large employer groups.

Premium Contribution Changes–Employees/ Retirees/Retired Municipal Teachers

As part of the FY10 Appropriation Act, the legislature changed the premium contribution percentage for state employees. State employees who paid 20% of the basic life and health insurance premium (if they were hired after June 30, 2003) now pay 25%; those who paid 15% (if they were hired on or before June 30, 2003) now pay 20%. Without much lead time, staff worked on the necessary programming and rate calculation tables, communicating the change through multiple means - pay advice messages, website, emails to coordinators, and employees, and the newsletter – in order to implement the change as of August 1, 2009.

Legislation signed by the Governor in August 2009 included a health care incentive for state employees. Chapter 65 of the Acts of 2009 offered state employees who filed for retirement after August 7, 2009, and no later than October 1, 2009, with a retirement date no later than January 31, 2010, a premium contribution for GIC basic life and health insurance of 15%. Employees who filed an application for retirement after October 1, 2009, now pay 20% of the premium. GIC staff collaborated with other agencies to vet the effective and implementation dates for these new premium contribution splits. We worked with other affected agencies to flesh out the details for program administration. Systems and Operations staff worked with the State Board of Retirement to collect the new required retirement filing dates and we detailed these changes through multiple channels, including participation in a HRD-sponsored panel for agency benefit coordinators.

Since July 1988, Retired Municipal Teachers (RMTs) participating in the GIC's RMT program have paid 10 percent of their health insurance premium. At the urging of participating communities, RMTs' premium contributions were brought in line with their other retired municipal workers, and recognizing that RMTs paid significantly lower premiums than most state retirees, the Commission voted to increase the RMT premiums to 15% as of July 1, 2010. RMTs who retired on or before July 1, 1990, were grandfathered at the 10% rate.

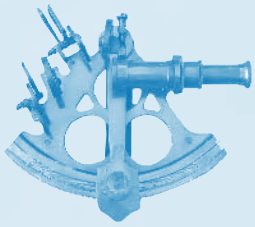
Mid-Year Benefit Changes

As the FY10 year progressed, GIC health care costs skyrocketed beyond expectation due to increased utilization, new members from the transportation and county reorganizations, and increasing prices charged by providers – doctors, hospitals, imaging centers and the prescription drug manufacturers. For every $1.00 of GIC health plan premium, approximately $0.90 is paid to providers. The Attorney General released a groundbreaking report in March 2010 entitled "Investigation of Health Care Cost Drivers." This revealed that provider payments are tied to market leverage and geographic isolation – 10 Massachusetts hospitals get paid 10%-100% more than the other 55 for similar work. Hearings held by the Administration found similar disparities.

Compounding these challenges, due to the timing of the supplemental budget received for FY09, $6 million in FY09 Harvard Pilgrim Health Care claims needed to be moved to FY10 as plan system limitations did not allow the payments to be made before the fiscal year closed.

As of November 2009, the GIC's projected FY10 deficit was $35 million for the year. With the state facing a fiscal crisis and no expectation that a supplemental budget would be available, the GIC made a difficult decision to make mid-year benefit changes, increasing copays for:

- Physician office visits
- Physical therapy, chiropractic, routine eye exam, speech therapy and occupational therapy
- Outpatient surgery
- Hi-tech imaging (e.g,, MRI, PET and CT scans)



With the GIC's Clinical Performance Improvement (CPI) Initiative, which began in 2004, members receive an incentive, through lower copays, to see physicians with the highest quality and/or cost-efficiency scores:

★★★Tier 1 (excellent)

★★Tier 2 (good)

★Tier 3 (standard)

- Emergency room
- Mental health/substance abuse outpatient visits

More controversial was the GIC's institution of a calendar year deductible of $250 per member up to a maximum of $750 per family. In an effort to help ensure that the calendar year benefit did not pose a barrier to seeking routine care, the deductible was not applied to routine office visits, prescription drugs, and mental health benefits. These additional benefit changes allowed for a slight reduction in premiums, but this was of little solace to members, who expressed their unhappiness in significant numbers.

MAKING HEADWAY ON RISING HEALTH CARE COSTS

Clinical Performance Improvement Initiative

Rising provider costs remain a formidable challenge in trying to tamp down increasing health care costs. The GIC has been on the forefront of raising awareness about differences in provider quality and costs. With the GIC's Clinical Performance Improvement (CPI) Initiative, which began in 2004, members receive an incentive, through lower copays, to see physicians with the highest quality and/or cost-efficiency scores:

★★★Tier 1 (excellent)

★★Tier 2 (good)

★Tier 3 (standard)

During our sixth year in this important program additional strides were made. With guidance from our Physician Advisory Group, improvements were made in the timeliness of physician notification, which led to fewer requests for tiering review. Approximately 60% of the GIC's physician spending was tiered in FY10, and the ability to link more services to particular specialists was improved, which increased the number of physicians that became tiered for FY11.

Introduction of Additional Limited Network Plan Options

To help address differences in provider costs and encourage employees to save money by enrolling in narrower network plans, the GIC introduced during the spring enrollment period two additional limited network health plans for FY11: Harvard Pilgrim Primary Choice Plan and Tufts Health Plan Spirit. These plans' premiums were priced 21% below their wider network counterparts and almost 2,000 employees elected to enroll in these lower cost plans. Through the introduction of these plans, negotiating flat administrative fees with the plans, and not increasing members' copays and deductibles again, the GIC was able to achieve an average weighted rate increase for FY11 of 7.91%.

Select Rx Home Delivery Program

Many members continued to use their local retail pharmacy for maintenance medications, even though they could save money by using mail order. The Commission voted to implement an innovative Select Home Delivery Program for members of the UniCare plans who received their prescription drug benefits through Express Scripts. A total of 34,400 members were contacted by mail and telephonic message and encouraged to switch their maintenance medications to home delivery. More than thirty-nine percent of these members elected to switch their medications, saving these members over $1.1 million annually in copays and saving the GIC almost $1.0 million per year. A similar program was conducted by the GIC's new pharmacy benefit manager effective July 1, 2010.

THROWING A LIFELINE TO OTHER ENTITIES AND MEMBERS

New Municipalities and School Districts

Municipal health care costs grew nearly twice as fast as they did for the GIC between 2001 and 2005, according to a 2005 Massachusetts Taxpayers Foundation report. The Municipal Partnership Act, signed in July 2007, allowed municipalities the option of joining the GIC's health coverage. To assist communities with weighing this option, the GIC participated in over 10 of the Lieutenant Governor's FY10 Listening Tours held across the state. A dedicated area of the GIC's website provided comprehensive information, including tools to help municipalities calculate their potential cost savings. The GIC again participated at the Massachusetts Municipal Trade Show and provided presentations to Public Employee Committees seriously considering the GIC health insurance option. A total of 14 additional municipalities joined the GIC effective July 1, 2009, representing an additional 15,558 members, and the GIC held numerous training sessions and dedicated health fairs to help make these transitions go smoothly:

Blue Hills Vocational School District
City of Melrose
City of Quincy
City of Pittsfield
Groton-Dunstable Regional School District
Pioneer Valley Planning Commission
Town of Norwood
Town of Randolph
Town of Stoneham
Town of Swampscott
Town of Watertown
Town of Wenham
Town of Weston
Town of Weymouth

In December 2009, the GIC received Public Employee Committee agreements for four additional communities, representing another 3,400 members, to join the GIC effective July 1, 2010. Training and implementation meetings, data exchanges, and special health fairs took place during FY10 for these communities:

Town of Brookline
Town of Hopedale
Wachusett Regional School District
Merrimack Valley Planning Commission

A recent study published by the Metropolitan Area Planning Council and The Boston Foundation found that fifteen municipalities in the greater Boston area that have joined the GIC have realized approximately $35 million in cumulative first-year savings alone. Five participating municipalities outside of the greater Boston area have reported another $17.5 million in savings, bringing the projected savings of the largest participating municipalities to a total of $53 million.

The Municipal Partnership Act allows municipalities to withdraw from the GIC after three or six year intervals, as specified in their Public Employee Committee agreement. During FY10, the GIC worked with its data vendor to extract the types of data that would be needed by municipalities to evaluate whether or not to withdraw. An Administrative Bulletin outlining the steps and procedures to request this data and to protect patient confidentiality was finalized and disseminated.

In the late spring, the City of Lawrence was facing a fiscal crisis. As part of the steps taken to restore fiscal health to the city, emergency legislation passed that required a study to determine whether or not the city would save money by joining the GIC's health insurance. The study estimated significant savings and the city adopted Section 19 of Chapter 32B to join the GIC's health insurance effective November 1, 2010. As the FY10 fiscal year ended, GIC legal staff was reviewing the legislation to clearly define the premium contribution percentage that would be paid, and two implementation meetings were held with City of Lawrence benefit staff in preparation for this enrollment.

Sheriffs and Transportation Reform

In FY10, the GIC welcomed another 4,600 members as the result of legislation that streamlined transportation agencies and folded Sheriffs staff from seven counties into the state. This transfer of employees to the state's coverage represented another big expansion of the GIC. Despite lack of resources, the GIC worked hard to make the transition efficient. Staff participated in weekly interagency meetings, collaborating with other agencies on the termination details for collective bargaining agreements and the premium contributions that would be paid by the employees. Pension and payroll deductions were coordinated with other agencies and county retirement boards. Data feeds and eligibility documentation

By joining the GIC participating municipalities have saved a combined total of over $53 million in the first year alone.

In FY10, the GIC welcomed another 4,600 members as the result of legislation that streamlined transportation agencies and folded Sheriffs staff from seven counties into the state.

Almost 13,000 state employees enrolled in the Flexible Spending Account programs, a 40% increase over the previous year.

was collected. Customized communications and forms were developed and implementation and benefit training with benefits staff were held. The GIC also sponsored four special enrollment fairs in the fall. Employees and retirees of the following groups joined all state benefits effective January 1 and February 1:

Massachusetts Department of Transportation
MBTA (Massachusetts Bay Transportation Authority)
Former Massachusetts Turnpike Authority
Massport Tobin Bridge

County Sheriffs Departments from the following counties:

Barnstable
Bristol
Dukes
Nantucket
Norfolk
Plymouth
Suffolk

Some of the unions from the Sheriffs Departments and former MBTA and Turnpike Authority filed suit to halt the transfer to the GIC. Employees without evergreen clauses in their contract (an automatic extension provision) did enroll when their bargaining contracts expired, including another 1,500 Department of Transportation employees effective July 1, 2010. These lawsuits are pending.

Flexible Spending Account Enhancements for State Employees

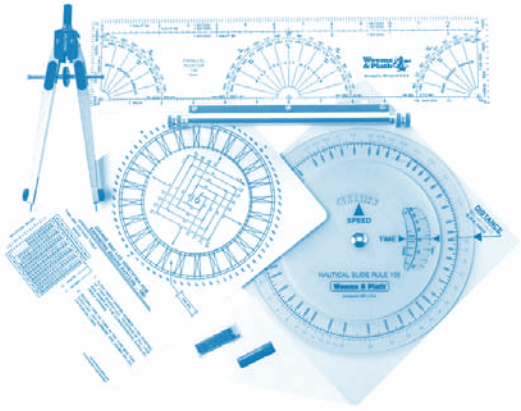
After a competitive bidding process, the GIC selected Benefit Strategies, a New Hampshire based vendor, as the new vendor for the pretax Flexible Spending Account benefits administration: the Health Care Spending Account and Dependent Care Assistance Program. With this transfer, the GIC was able to lower the monthly administrative fee (paid entirely by members) by 4% to $3.60 effective January 1, 2010. The maximum election amount for the Health Care Spending Account was increased to $5,000 annually, enabling employees to pay for more out-of-pocket medical expenses on a pre-tax basis. The fall open enrollment period was extended by a month to allow more employees to take advantage of the program in light of the mid-year benefit changes. These collective efforts worked and almost 13,000 state employees enrolled in the program, a 40% increase over the previous year.

H1N1 Vaccine Coverage with DPH Clinics

The winter flu season of 2010 was expected to be a difficult one. The GIC coordinated efforts with the Department of Public Health, covering flu vaccines at no charge to members at DPH and community-based clinics. Not only did this mean it was more convenient for members to receive their inoculation at no charge, this effort also saved the state money as the DPH flu shot charge was lower than the rates physicians charged the health plans.

WellMass Pilot Program

The obesity epidemic continues to put a tremendous strain on members' health and the costs associated with obesity. In an effort to begin tackling this problem, the Commission authorized an innovative pilot program which will be offered to state employees at select buildings in downtown Boston during FY11. The program will include weekly seminars, weigh-ins and tips for healthy living and weight loss over a 16-week period. Monetary prizes will be offered and a follow up weigh in will take place after six months. The program will offer an opportunity to see what works, what does not, and how we might best expand the successful components of this pilot program to a larger group of members.



ALL HANDS ON DECK AS WE NAVIGATE AHEAD

During FY10, the GIC added over 20,000 subscribers and prepared to add another 7,900 subscribers for FY11. Despite no additional staff, the GIC strived to continue to offer smooth transitions for these members and fielded numerous calls from unhappy members especially upset about the mid-year benefit changes. It truly was a year of all hands on deck and the GIC, with a total budget of $1.6 billion and providing coverage for some 350,000 lives, did so with only 50 full time staff members, supplemented with a few temporary staff. In addition, Information Technology staff was also consolidated across agencies, which meant that the GIC's IT staff added other agencies to its workload.

COBRA ARRA Subsidy

The American Recovery and Reinvestment Act provided for subsidized COBRA health coverage for those involuntarily terminated from their jobs. Originally signed in February of 2009, the COBRA ARRA subsidy was amended three times during FY10. Coverage was also extended from 9 months to 15 months. The timing of these amendments required programming to look back on others who might be eligible for the coverage, and special billings and communications to those individuals. Through these efforts, almost 700 former state and municipal employees were able to take advantage of this subsidy.

Prescription Drug Benefit Manager

All 139,000 UniCare members receive their prescription drug benefits through the GIC's pharmacy carve out program. As required by state procurement regulations, the GIC went out to bid for its pharmacy benefit manager, as this contract was set to expire June 30, 2010. After a rigorous procurement, the Commission selected CVS Caremark as the new pharmacy benefit manager effective July 1, 2010. CVS Caremark provided the best financial terms and members will have a benefit enhancement: they will now have the option to receive their 90-day maintenance medications at a CVS pharmacy at the same copay as through the mail order option.

Dental Renewal

The GIC exercised the last two of its one year renewal options with MetLife, enabling us to secure attractive rate guarantees for the next two fiscal years as well as benefit enhancements for FY11:

- The in-network calendar year benefit increased from $1,000 to $1,250 per member for active employees.
- The per member annual benefit increased from $850 to $1,000 for retiree members.
- Reimbursement levels for some services were increased in the retiree plan, thereby potentially decreasing members' out-of-pocket expenses.

Additionally, some benefits' frequency were realigned to correspond to recommendations from the American Dental Association.

Data Warehouse Contract

The data warehouse is an important aspect of the GIC's work, enabling the GIC to analyze claims data for multiple purposes, especially helping to shape policy decisions. During FY10, the GIC went out to bid for the data warehouse vendor effective July 1, 2010, and after a competitive bidding process, the Commission selected the incumbent vendor, Ingenix, at the January 2010 Commission meeting.

Medicare Part D Subsidy

The GIC continued to participate in the federal subsidy program for employers that offers prescription drug benefits for their Medicare retirees. The program requires data sharing among the GIC, the Centers for Medicare and Medicaid Services (CMS), three of our Medicare HMO health plans, and the pharmacy benefit manager for the UniCare State Medicare Indemnity Plan. To date for FY10, CMS has sent $22 million to the Commonwealth's General Fund as a result of these efforts.

MAGIC Upgrade

Work on upgrading the GIC's critical eligibility, enrollment, change and reporting system (MAGIC) continued throughout FY10. The Information Technology team worked with the state's Information Technology Department to develop strategies and processes to provide a secure platform for web-based applications. This collaboration has produced a combination of security methods with a user friendly interface for the GIC's vendors, benefit coordinators and internal GIC personnel. The new vendor application was rolled out in early FY11 and work progresses on a number of fronts including the web interface to process GIC benefits and invoices for coordinators at over 200 different payroll and pension systems.

To date for FY10, CMS has sent $22 million to the Commonwealth's General Fund as a result of the Medicare Part D subsidy program.

Federal Health Care Legislation

The Patient Protection and Affordability Act, signed into law in March 2010, will affect GIC reporting, enrollment, dependent coverage, procedures, benefits and forms in the future. In FY10, the focus was on two beneficial provisions: applying for the federal Early Retirement Reimbursement Program (ERRP) Incentive program for covering retirees ages 55 to 64 and their spouses and dependents; and eliminating imputed income for Non-IRS Dependents, effective March 30, 2010. Regulations stipulate that the ERRP program must be used to offset employers' and/or retirees' costs. The GIC submitted its application for the ERRP funding on the June 30 submission date and also began participating in the interagency working group devoted to implementing the new federal health care reform law. Separately, programming was completed to discontinue the imputed income incurred by employees on the state's HRCMS and UMass Payroll systems, and amounts were calculated and reported to all offline agencies and municipalities so they could credit any affected employees for Non-IRS dependent coverage imputed income charged in April.

WORKING WITH OTHER CREWS

Throughout FY10, the GIC's activities within and beyond state government expanded even more than in previous years.

Collaboration

Throughout FY10, the GIC's activities within and beyond state government expanded even more than in previous years. New legislation and national initiatives devoted to tackling disparities in health care quality and rising costs meant increased collaboration was needed in an effort to effect change and the GIC's Executive Director served as a board member on the following organizations:

National

- Catalyst for Payment Reform – purchasers looking for new ways to pay for health care that improve quality and reduce costs.
- Disclosure Leadership Team – purchasers and consumers pressing for use of and reporting of quality and cost measurements.
- Hospital Quality Alliance – multi-stakeholder group that reviews hospital quality data and advises the Centers for Medicare and Medicaid on reporting.
- Milbank Foundation – publishes health care research.
- National Committee for Quality Assurance (NCQA) and its Accountable Care Organization Task Force –accrediting organization for managed care plans, physicians, and medical homes.

State

- Institute for Clinical and Economic Review – appraises the clinical effectiveness and comparative value of new and existing health care interventions.
- Massachusetts Health Care Quality and Cost Council and four of its working groups – provides information to the public about health care quality and cost.
- Massachusetts Health Connector Authority – Massachusetts exchange that runs Commonwealth Care and Commonwealth Choice and implemented Chapter 58, the Massachusetts health reform law.
- Massachusetts Health Data Consortium – supports efforts to improve health care quality and cost through health data and technology.
- Massachusetts Health Council – focuses on prevention to improve care.

The Executive Director and the GIC staff are also involved in collaborating with others to implement national and state health reform legislation (Federal Health Care Reform Implementation Working Group, Small Business Health Care Bill, Health Care Security Trust, and Department of Transportation Team Lead Steering Committee), electronic medical records (Mass EHealth Collaborative Board and its Executive Committee), reducing health care fraud (Anti-fraud Provider Group), database and IT consolidation (Inter-Agency Analytic Group, 2011 IT Plan Committee, and All-Payer Claims Database) and increase the number of medical home programs (Primary Care Medical Home Initiative). The GIC also continues to be active in the New England Employee Benefits Council.

Communications

Communications played a critical role during FY10, particularly with the challenges of premium contribution changes, additional groups joining in the fall, and mid-year benefit changes. All available communications avenues were used during the year to keep current and new mem-

bers up-to-date about important changes: Benefit Decision Guides, quarterly For Your Benefit newsletter, website, home mailings, and emails to Coordinators and employees on the state's listserv. A total of eleven communications were developed for each of the new Transportation and Sheriffs Department groups including a special Benefit Decision Guide, customized forms, special health fairs, and agency coordinator benefits training.

Throughout the year, the GIC's website continued to expand, and site traffic increased over 14% compared with the previous year. New links were added to improve navigation. A new section was added for the GIC's regulations and Administrative Bulletins and additional content was added in ADA (Americans with Disability Act)-accessible formats.

We continued to make enhancements to our critical Benefit Decision Guides. A new "How to Choose a Health Plan" with easy-to-understand icons was developed. A separate page was devoted to illustrations of how members could maximize their health plan options and points to consider when selecting a health plan and a health provider. Benefits Coordinators, located at agencies, authorities and municipalities across the state, play an important role in our communications efforts. A series of five training sessions were held and over 500 coordinators were brought up-to-date on the new health plan options, pharmacy benefit manager, and procedural and legislative changes that affected GIC benefits.

NEXT ON THE HORIZON

Limited Resources and Escalating Costs

The prognosis for state revenues is projected to be difficult for the foreseeable future. Controlling health care costs will take a concerted effort and difficult changes for physicians, hospitals, the prescription drug and medical device industry, government, health plans, purchasers and patients alike. The GIC will be moving ahead with the CPI Initiative, exploring ways to offer a web utility to improve collaboration with providers, enabling them to view claims attributed to them as tiering levels are assigned. Additional quality measures are also in the works for the seventh year of this program, enhancing the breadth of the data.

Members will need to take a more active role in weighing cost and provider choice when choosing a health plan. And, the GIC will provide them with additional tools and communications to help them consider enrolling in some of our lower cost, limited network plan options. Wellness will also play an important role in the years ahead. Helping members with losing weight and to smoke cessation are fundamental for improved life expectancy and lowered health care costs.

The GIC will be advocating for and contributing to efforts to create a more rational health care payment system. In addition to participating in the Payment Reform Commission, the GIC will be striving to encourage greater participation of all players – health plans, providers and members – in medical homes. These patient-centered models improve coordination, communication, access, and care -- lowering costs in the process.

Additional aspects of the Patient Protection and Affordable Care Act and national mental health parity law will become effective in Fiscal Year 2011 and beyond. Benefits, systems, eligibility and plan changes will be weighed, and decisions will be communicated and implemented. To meet the challenges of new groups, state and federal legislation, we will continue to move forward with the next steps to upgrade our critical Information Technology infrastructure. And, as always, we will continue to collaborate with the larger health care community and communicate with our members to help ensure smooth sailing ahead.

Although the health care and fiscal seas are not calm, the GIC will continue to sail ahead, working with others to develop innovative solutions for the benefit of our members and the taxpayers of the Commonwealth.

GROUP INSURANCE COMMISSION
STATEMENT OF EXPENDITURES
JULY 1, 2009 - JUNE 30, 2010

DESCRIPTION	COMMONWEALTH	EMPLOYEES
Administration (a)	$2,537,233	$0
State Employees and Retirees' Basic Life Insurance	$9,183,623	$2,182,904
State Employees' Optional Life Insurance	$0	$25,782,820
State Employees' Health Insurance (b)	$1,344,315,464	$325,028,256
State Employees' Dental And Vision for Managers, Legislators, Legislative Staff and Certain Employees of the Executive Offices	$7,577,657	$1,490,836
Long Term Disability For State Employees	$0	$12,483,686
Elderly Governmental Retirees' Health Insurance (c)	$497,144	$114,978
Retired Municipal Teachers' Life Insurance	$861,945	$188,913
Retired Municipal Teachers' Health Insurance	$70,187,170	$11,573,366
Retirees' Dental Insurance	$0	$6,518,288
TOTAL EXPENDITURES	$1,435,160,236	$385,364,047

(a) Plus an additional $842,490 from employees' trust funds which were used to pay administrative costs such as postage, telephone and supplies, that are included on the next two statements; and $662,259 from communities participating in the GIC's Health Insurance Programs to cover the additional administrative costs.

(b) Medical and prescription drug co-payments and deductibles for FY10 totaled approximately $180 million.

(c) The EGR share includes $17,604 from the EGR Trust Fund and $14,758 from the EGR Rate Stabilization Reserve. These amounts are subsidies to these retirees' premiums.

GROUP INSURANCE COMMISSION
STATEMENT OF REVENUES
JULY 1, 2009 - JUNE 30, 2010

SOURCE OF REVENUE	COMMONWEALTH REVENUE
Housing, redevelopment, and other authorities	$77,254,276
Cities, towns, districts and other local governmental units participating in the GIC municipal health program	$185,582,740
Cities, towns and districts participating in the Retired Municipal Teachers' Program and the Elderly Governmental Retirees' Program	$76,941,805
Federal and Trust Fund chargebacks to state agencies	$213,845,712
Charges to state agencies for insureds who are on leave of absence over one year	$449,916
Federal reimbursement subsidy for Medicare Part D Program	$34,298,978
Other income	$1,409,821
Total Revenue Credited to Commonwealth's General Fund	$589,783,248

GROUP INSURANCE COMMISSION
SUMMARY OF EXPENSES AND REVENUE
COMMONWEALTH SHARE FOR FY10

Total Expenditures	$1,435,160,236
Total Revenue	($589,783,248)
Net Commonwealth Expense	$845,376,988

RATE STABILIZATION RESERVE STATEMENT
JULY 1, 2009 - JUNE 30, 2010

RESERVE	BALANCE 7/1/09	RECEIPTS 7/1/09 - 6/30/10	EXPENDITURES 7/1/09 - 6/30/10	BALANCE 6/30/10
Basic Life	$3,130,572.14	$13,402.23	$0.00	$3,143,974.37
Optional Life	$24,812,867.71	$102,386.55	$1,100,000.00	$23,815,254.26
Employee Health	$74,066.87	$323.59	$0.00	$74,390.46
Elderly Governmental Retiree Health	$186,112.14	$61,738.02	$14,757.84	$233,092.32
Retired Municipal Teacher Life	$108,999.34	$478.32	$0.00	$109,477.66
Retired Municipal Teacher Health	$29,259.42	$9,032,086.86	$0.00	$9,061,346.28
TOTAL	$28,341,877.62	$9,210,415.57	$1,114,757.84	$36,437,535.35

EMPLOYEES' TRUST FUND STATEMENTS
JULY 1, 2009 - JUNE 30, 2010

	State Employees' Trust Fund	Elderly Governmental Retirees' Trust Fund	Retired Municipal Teachers' Trust Fund
Balance 7/1/09	$4,840,803.06	$185,299.13	$0.19
Receipts	$82,316.78	$751.86	$0.00
Expenditures	($842,489.73)	($17,604.00)	$0.00
Balance 6/30/10	$4,080,630.11	$168,446.99	$0.19

Financial and Trend Reports

HEALTH PLAN MEMBERSHIP BY INSURED STATUS 2010

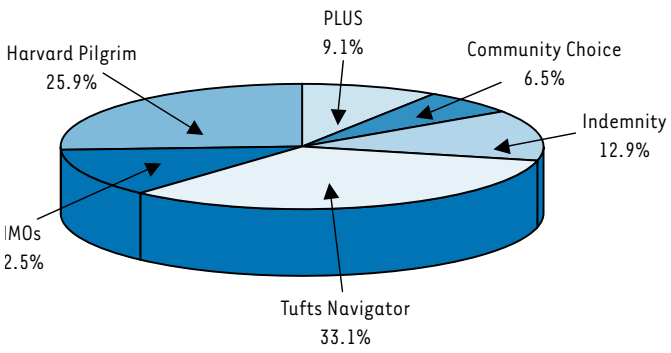
	TOTAL ACTIVE*	TOTAL RET & SUR	TOTAL EGR&RMT	TOTAL ENROLLEES	TOTAL DEPENDENTS	TOTAL LIVES
UniCare Indemnity Plan	12,245	58,320	10,392	80,957	20,828	101,785
UniCare PLUS	8,690	1,881	0	10,571	13,403	23,974
UniCare Community Choice	6,137	896	0	7,033	8,431	15,464
Fallon Community Health Plan Direct	1,333	121	21	1,475	1,379	2,854
Fallon Community Health Plan Select	2,787	1,183	139	4,109	4,473	8,582
Harvard Pilgrim Health Care	24,604	9,256	38	33,898	38,696	72,594
Health New England	6,622	1,862	256	8,740	9,415	18,155
Neighborhood Health Plan	1,166	68	46	1,280	1,259	2,539
Tufts Health Plan	31,449	8,219	140	39,808	48,838	88,646
Basic Indemnity Plan	12,233	10,701	3,801	26,735	20,828	47,563
Self-Insured Medicare Plan	12	47,619	6,591	54,222	0	54,222
PPO-Type Plans	70,875	11,467	0	82,342	109,368	191,710
Non-Medicare HMO Plans	11,908	1,482	328	13,718	16,526	30,244
Insured Medicare Plans	5	10,537	312	10,854	0	10,854
TOTAL-ALL	95,033	81,806	11,032	187,871	146,722	334,593
Basic Indemnity % of Total	12.9%	13.1%	34.5%	14.2%	14.2%	14.2%
Self-Insured Medicare % of Total	0.0%	58.2%	59.7%	28.9%	0.0%	16.2%
PPO-Type % of Total	74.6%	14.0%	0.0%	43.8%	74.5%	57.3%
Non-Medicare HMO % of Total	12.5%	1.8%	3.0%	7.3%	11.3%	9.0%
Insured Medicare % of Total	0.0%	12.9%	2.8%	5.8%	0.0%	3.2%

*Active enrollment includes enrollment figures for enrollees with IRS or non-IRS dependent coverage.

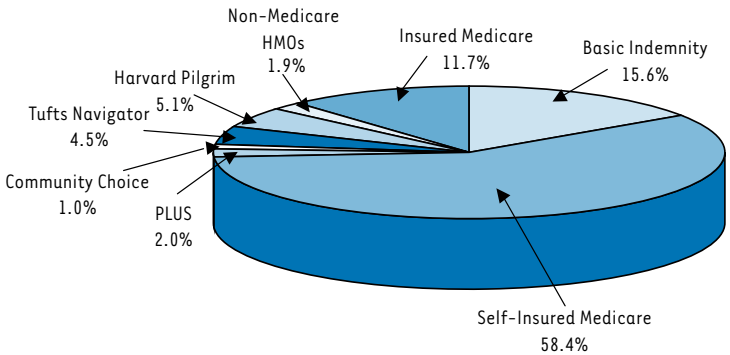
Source: Pool I Age/Sex Composition Analysis, Fiscal Year 2010 and Pool II Age/Sex Composition Analysis, Fiscal Year 2010.

FY 2010 Enrollment

Active Employees by Plan Type -FY2010

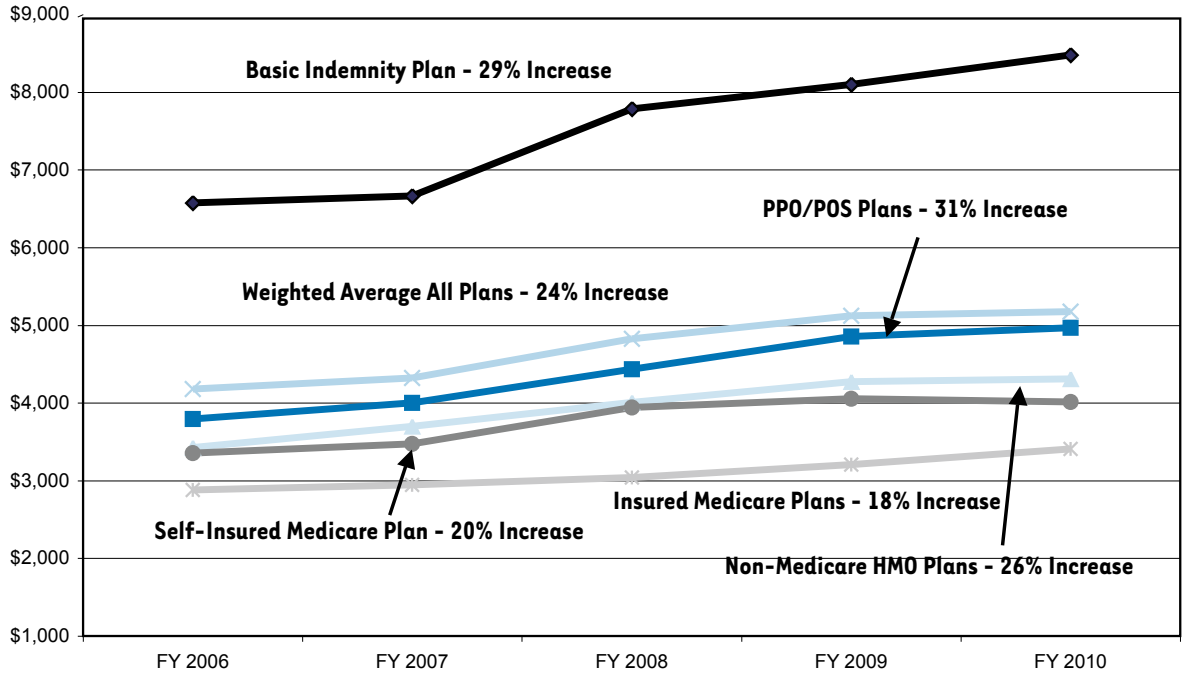


Retirees and Survivors by Plan Type - FY2010



COST PER CAPITA*

(Total State and Employee/Retiree Share)



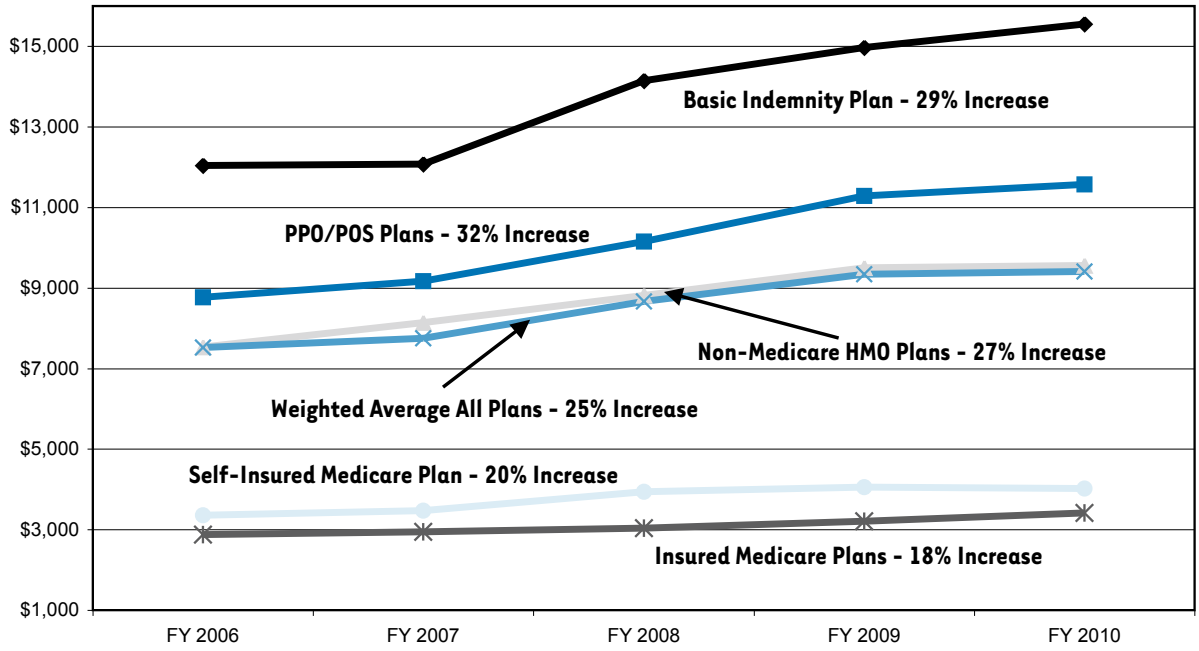
* The PPO/POS Plans include the Indemnity PLUS and Community Choice plans, the HPHC POS/Independence plan, and Tufts Navigator.

** Does not include EGRs, RMTs, or enrollees' out of pocket expenses.

Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2010.

COST PER SUBSCRIBER (ENROLLEE)*

(Total State and Employee/Retiree Share)



* The PPO/POS Plans include the Indemnity PLUS and Community Choice plans, the HPHC POS/Independence plan, and Tufts Navigator.

** Does not include EGRs, RMTs, or enrollees' out of pocket expenses.

Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2010.

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